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Market Brief - Candy

Taiwan

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Highlight:

- In 1998, total candy consumption in Taiwan was estimated at US\$283 million or 55 million kilograms, of which 22%, in terms of value, was imported.
 - Nearly 70% of chocolate products are imported.
 - The market has become more mature and consumers are beginning to demand a wider variety of candies.
 - Retail industry sources indicate U.S. candy products are very competitive, both in terms of quality and cost.
 - Candies that provide a health benefit or that at least do not contribute to weight gain or cavities have good prospects in Taiwan.
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1. Executive Summary

Chocolate candy products constitute the largest segment of the candy import market. Part of the great success of imported products is that they compare favorably to domestic products both in terms of price and quality. However, the entry of major European chocolate product manufacturers has shifted some market share away from U.S. suppliers. Fortunately, overall candy imports from the United States have continued to grow steadily over the past five years with an average annual growth rate of 12%. Only 1998 showed a reduction (37%), but this was attributable to the economic slowdown in Taiwan. Candy is sold mainly in convenience stores, supermarkets, hypermarkets and grocery stores. Only a small portion is sold at department stores and through specialty retailers. Retail industry sources indicate U.S. candy products are very competitive, both in terms of quality and cost, but report the Japanese have more attractive packaging, both in terms of materials and design. Marketing efforts should focus on promoting candy gift packs during the peak candy season (November - February), which covers Christmas, Chinese Lunar New Year and Valentine's Day. The revenues generated during this season reportedly account for over 40% of all candy sales.

2. Market Access

All processed food products, including candy, are subject to a random inspection by the Bureau of Standards, Metrology, and Inspection (BSMI), which is part of the Ministry of Economic Affairs. The inspection focuses on labeling, food hygiene, and food additives.

Food Additive Regulations

Imported processed food products which contain artificial food additives are subject to strict tolerance levels and acceptable use requirements as prescribed by Taiwan's Department of Health (DOH). The DOH's "Compilation of Food Sanitation Regulations" covers several hundred food additive standards and regulations. This list is available in Chinese on the DOH's homepage (<http://www.doh.gov.tw>.) The names of these food additives are listed in both English and Chinese.

Labeling Requirements

Revisions to Taiwan's "Law Governing Food Sanitation" were promulgated in September 1994, and went into effect on March 7, 1995. The Taiwan authorities are strictly enforcing the new food and beverage labeling requirements. Improper or altered labels risk rejection by the local inspector at the port of entry. The old law allowed the entry of the products without carrying a Chinese label on condition that the importer affixed the Chinese labels on the products before they were delivered to the retail market for commercial sales. The new law requires all products, except those destined for use by the food service sector, to already have Chinese label affixed to the product before it can clear the Customs.

The following types of businesses may apply for an exemption from the Chinese labeling requirement:

- Food processing plants which import food for processing
- Restaurants, fast food stores and bakeries, which import food for their own kitchens
- Importers who import food for processing, for repack or change-pack, not for direct sale

Otherwise, all food products imported into Taiwan for retail sales must carry a label indicating the following information in Chinese:

- Product Name
 - Name of food additives
 - Weight, volume or quantity of the contents (if a mixture of two or more components, they must be listed separately)
 - Name and detailed address of manufacturer
 - Name and detailed address of importer
 - Date of manufacture (year, month, date) must be printed in that order
- To distinguish the month from the date, the Chinese characters for "month" and "date" may be included on the label. An expiration date may be used in lieu of the date of manufacture. Dairy products also must indicate shelf life duration. Coded formats are not allowed.

Tariffs and Taxes

There are no quotas in effect for candy imports. However, the following table lists the current tariffs levied on each type of candy:

Candy Type	Import Tariff on CIF value
Chocolate	15%
Chewing Gum	30%
Other Candies	32%

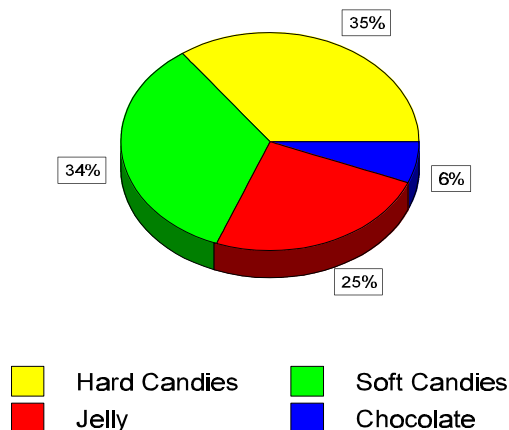
3. Trends in Consumption

--In Taiwan, the candy market is divided into four primary categories: hard candies, soft candies, jellies, and chocolate.

--If you combine jellies and chocolate together, each category accounts for approximately 1/3 of the total market share by volume.

--It is estimated that in 1998, total candy consumption in Taiwan was valued at US\$283 million (approximately 55 million kilograms) in terms of value, of which 22% was imported. Consumption of candy has been relatively stable over the past few years. However, industry sources indicated there is still room for growth in Taiwan, as long as the industry provides consumers with unique products.

Taiwan Candy Market Breakdown



--Currently, consumer brand loyalty for candy is weak. Demand can be swayed by an effective ad campaign. Often times, the sales of a certain brand booms when there is a strong advertising campaign, but then declines again after the campaign.

--The market has become more mature and consumers are beginning to demand a wider variety of candies.

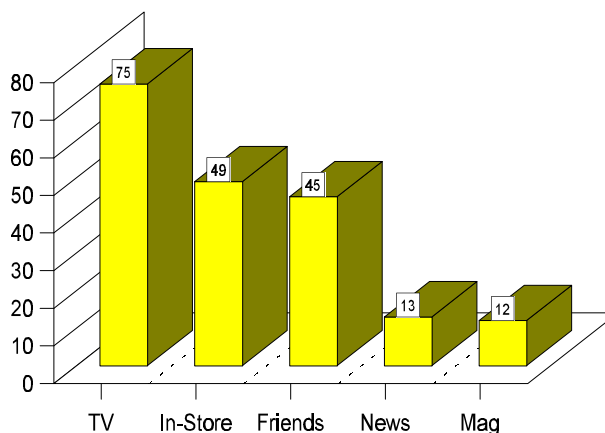
--With the increase in the standard of living and the current focus on healthy eating, candies that provide a health benefit, or that at least do not contribute to weight gain or cavities, show the best prospects in Taiwan.

--Natural food additives are increasingly replacing artificial additives in candy products.

--Unique flavors and creative packaging are the key to success in the Taiwan market.

--According to a market research report prepared by the Food Industry Research & Development Institute (FIRDI), 75% of Taiwan consumers hear about candies from TV

Sources of Candy Information



commercials, 49% hear about them from in-store promotions and only 12% find out about candies from newspapers/periodicals. N.B.- Total does not equal 100%, because of multiple answers.

--Retail outlets account for nearly 99% of all candy sales. According to FIRDI's research, Taiwan consumers voted convenience stores as the venue where they buy candies the most frequently:

Items	Chewing Gum	Chocolate	Candies
Convenience Stores	79.0%	70.0%	70.5%
Supermarkets	44.2	46.3	46.1
Hypermarkets	20.5	29.5	28.9
Grocery	28.3	25.4	28.6
Commissary	16.3	15.8	19.3
Institutional stores	9.2	10.0	11.5
Bakeries	7.0	7.4	6.0
Others	4.8	2.1	3.3

Source: FIRDI

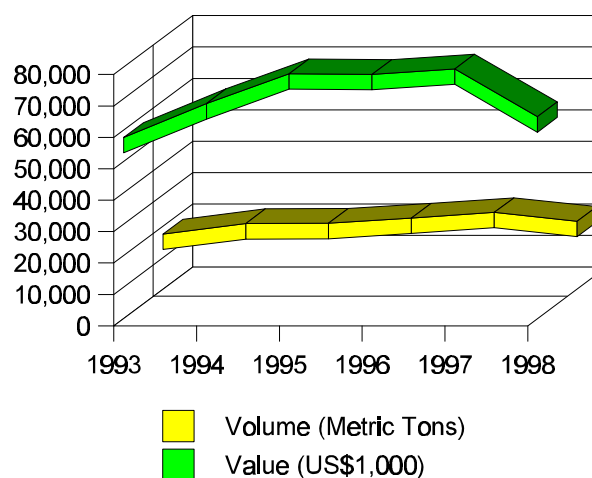
*Multiple selections by interviewees

Total does not equal 100% because of categories.

4. Trade and Competition

--Imported candy products have grown steadily at an average annual rate of 9% by value or 10% by volume, over the past five years through 1997. In 1998, Taiwan only imported US\$62 million (19,146 mt). Imports dropped 20% by value or 13% by volume, mainly due to an overall economic slowdown that year. Italy was the largest supplier (18% market share), followed by Japan (17%), the United States (15%), Australia (8%), France (5%), the Netherlands (5%), and Switzerland (5%). Italy and the other EU countries mainly supplied chocolate products, while Japan mainly supplied hard and soft candies. The United States used to hold a slightly larger market share than its competitors. However, the entry of major European chocolate product manufacturers has shifted some market share away from U.S. suppliers in recent years. The United States has been maintaining an average market share of 17% over the past six years.

Total Candy Imports Into Taiwan



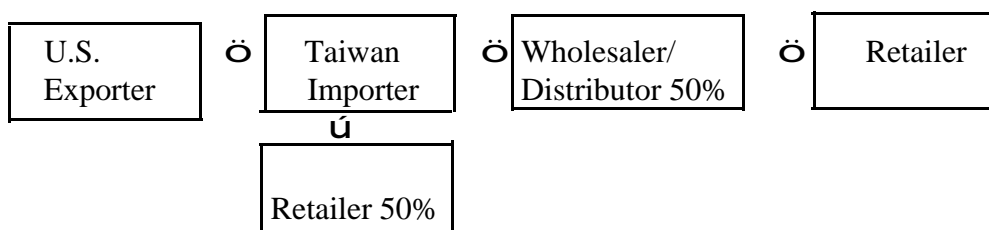
--It is estimated that nearly 70% of chocolate products are imported. Imported chocolate candy products are perceived to be higher in quality and more pleasing to the taste than

domestic products. Domestic manufacturers mainly produce compound chocolate products, so they will maintain their shapes and quality better in the tropical/subtropical climate of Taiwan. Taiwan's confectionery manufacturers face higher raw material costs than U.S. producers, because they have to purchase sugar from the state-owned Taiwan Sugar Corporation at well over the world price.

--Candy imports from the United States have been growing significantly with an annual growth rate of 12%. However, in 1998, Taiwan only imported US\$9.3 million or 2,271 metric tons of candy products from the United States. This was a drop of 37% from the previous year. It was mainly due to an overall economic slowdown. However, industry sources indicate prospects are still good for U.S. candy products. They recommend marketing efforts focus on promoting candy gift packs during the peak sales season (November - February.)

5. Distribution Channels

Currently, most importers maintain a team of in-house sales people who sell approximately 50% of their total imports directly to the retail chain stores and government stores. The remaining 50% is sold through regional wholesalers/distributors to retail stores. Domestic manufacturers either sell directly to retail stores or push their products through contracted wholesalers/distributors.



6. Selling to Retail Stores

With the modernization and growth of Taiwan's retail industry accelerating, competition among Taiwan's supermarkets, convenience stores, and warehouse stores has become tougher. In order to survive in this environment, the trend has been to increase the volume of direct imports, including candies, to avoid the higher cost of products purchased from importers and wholesalers. Also, to further reduce operating costs, almost all retail stores charge importers and manufacturers some fees. They may include some or all of the following:

- shelving fees (US\$30-300/each item/per outlet) for almost any new-to-market item;
- a special shelf-space fee (US\$61-305/each item/per outlet) for products which require a dedicated space for promotional purposes;
- a distribution handling fee (3%-5% of the total wholesale contract price) if the supplier cannot deliver the product directly to each outlet;

- a rebate to the store (3% of the total wholesale contract price) if the sales revenue of the product reaches the goal set by the retail store;
- a contribution for the store's anniversary celebration (5%-10% of the wholesale contract price);
- a special donation of US\$30-300 for a grand opening of a new store;
- a returned goods handling fee (2% of the total wholesale contract price) if the store required to handle returned goods themselves; and
- a miscellaneous fee estimated at 2% of the total wholesale contract price.

For more information on retail fees and the structure of the retail market see FAS reports available on the FAS (<http://www.fas.usda.gov>) or ATO/Taipei homepages.

7. Taiwan Importers

As previously mentioned, the trend is for retailers to import directly. Therefore, U.S. candy suppliers should contact the ATO for a list of retail stores. A list of Taiwan candy importers is also available from the ATO/Taipei, upon request.

End Report

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